

Fund Manager Commentary

As of December 31, 2020

Fund Highlights

- Utilizes a classic value-driven fundamental investment process
- Seeks to identify companies believed to be selling at a discount to their intrinsic value
- Employs five valuation screens that seek to identify attractively priced securities
- Conducts in-depth research and analysis on the securities that pass the valuation screens in an effort to identify leading companies selling at attractive valuations
- Examines financial statements and assesses the company's management team, competitive strategy and its current market position

Market Recap

The fourth quarter capped off a volatile year with optimism around COVID-19 vaccines and decreasing political uncertainty around Brexit and the U.S. election cycle. In a reversal of trend, investors sought out value stocks, especially those with cyclical tailwinds similar to the post-election rally in 2016, rather than growth in anticipation of a recovery in economic activity in 2021.

In terms of factors affecting small caps, volatility was the dominant force within the benchmark this quarter with higher beta¹ stocks outperforming those with lower betas. Additionally, lower quality companies rallied as did non-earners.

Broadly speaking, the more cyclical sectors of the benchmark fared well while defensive sectors lagged. The Materials and Energy sectors were among the strongest performers. The Information Technology, Communication Services, and Financials sectors also came in well ahead of the overall benchmark. Yield oriented sectors, Utilities and REITs, lagged despite low treasury yields. The Health Care, Consumer Staples, and Consumer Discretionary sectors also underperformed. The Industrials sector finished closer to the benchmark.

Portfolio Review

The Touchstone Small Cap Value Fund (Class A Shares Load-Waived) underperformed its benchmark, the Russell 2000[®] Value Index, for the quarter ended December 31, 2020.

The performance shortfall, while disappointing, was not unexpected given the environment described above. Our investment strategy historically has lagged when the market moves sharply higher. The Fund had poor stock selection in most every sector but Financials, not atypical when low ROE, high beta, small market cap and non-earners were the strongest factors in the

benchmark. The sectors with the largest detractors were Consumer Staples, Information Technology, and Communication Services while positive contribution came from stock selection within the Financials sector as well as an underweight to Real Estate.

Stock selection was weakest in the Consumer Staples sector. One of the Fund's large detractors was BJ's Wholesale Club Holdings Inc. The stock declined as investors worried about sales comparisons in 2021. The Fund continues to own the company for its accelerated unit growth, balance sheet optionality, and the stickiness of its membership base. Darling Ingredients Inc. was a strong contributor within the Consumer Staples sector this quarter. The Fund exited the position as the market capitalization of the rendering company became too large.

Stock selection was also a headwind in the Information Technology sector. The software and semiconductor industries performed well in the quarter. Virtusa Corp. was among the Fund's detractors in the sector. The company agreed to be acquired during the third quarter and the stock lagged during the strong vertical market of the fourth quarter. The Fund exited the position during the quarter. MACOM Technology Solutions Holdings Inc. contributed to Fund performance. We believe the company is well positioned with products for the 5G, datacenter, and satellite end markets.

Among the Fund's individual detractors was a company in the Consumer Discretionary sector, driving the headwind from stock selection. Murphy USA Inc. is a convenience store chain operating 1,500 locations, most located near Walmart stores. Despite a new buyback authorization and a solid acquisition, the stock was unable to pace in a strong up market. Steven Madden Ltd. was a strong outperformer in the sector. The company's most popular designs trend toward more formal occasions and the stock has lagged this

(continued)

Performance data quoted represents past performance, which is no guarantee of future results. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than performance data given. **For performance information current to the most recent month-end, visit [TouchstoneInvestments.com/mutual-funds](https://www.TouchstoneInvestments.com/mutual-funds).**



year as consumers have largely stayed at home. The strong recovery this past quarter was the result of share gains with the company's wholesale partners coupled with excitement over the vaccine announcement.

Performance in the Financials sector was driven by strength in the Fund's bank holdings. A trio of bank stocks that had underperformed earlier in the year on COVID-19 concerns fueled the outperformance. Western Alliance Bancorp, Pinnacle Financial Partners Inc., and Sterling Bancorp all outperformed meaningfully. Each bank had above average exposure to regions where COVID-19 has disrupted the local economy (Las Vegas, Nashville, and NYC). We believe the vaccine announcement in early November drove the performance of each holding.

The Fund's largest relative overweight positions were in the Consumer Staples and Industrials sectors. The Fund is notably underweight to the Consumer Discretionary, Real Estate, and Financials sectors. These exposures were driven by the opportunity set we see in each sector. The Fund initiated positions in several sectors with purchases of American Campus Communities Inc. (Real Estate sector; REIT), Cactus Inc. (Energy sector; energy services), Harmonic Inc. (Information Technology sector; communications equipment), Energizer Holdings (Consumer Staples sector; consumer products) and Ingredion Inc. (Consumer Staples sector; food processing). The Fund exited its positions in Darling Ingredients (Consumer Staples sector; food related products and ingredients) and Virtusa Corp. (Information Technology sector; IT consulting services). In each of these cases, we found better risk/reward opportunities in other holdings.

Outlook and Conclusion

Like everyone, we are glad to turn the page on 2020. The vaccine approval and rollout provide hope for a return to normal sometime in 2021. The drama of the election season has largely passed, with Democratic control of the presidency and in Congress, due to the Vice President's tiebreaking vote in the Senate. There will be policy shifts given the change in power, but we believe there will be more legislative compromise than witnessed in the past four years. President-elect Biden has made clear his desire for more direct stimulus, though the amount and recipients are still open to debate. We believe any tax increases or defense cuts will likely be marginal given their controversial nature and split in the Senate. Renewable energy, infrastructure spending, changes to healthcare, and congressional focus on big tech are also likely on the agenda.

The market itself is best described as exuberant. Indexes are at all-time highs, as are valuations. The market is pricing in a relatively positive scenario despite questions around the economy and trajectory of earnings in 2021. When accounting for those exiting the workforce, unemployment is still over 10 percent. The Fed continues its accommodative monetary policy in the hopes of generating inflation. There will likely be pockets of inflation over the next few quarters. We have to ask ourselves, will the numbers be true inflation or just easy comparisons and the start/stop effect of supply chains during a pandemic? COVID-19 infections have skyrocketed, vaccine distribution and administration is behind schedule, and stricter shutdown measures are increasingly probable.

Will this inflation slow the market, or will household savings continue their move into retail brokerage accounts, lifting the market further?

Despite the style headwinds and ongoing economic uncertainty, we hold fast and invest according to our process. Fundamentally, we are looking for quality stocks, trading at a discount, with good risk/reward potential. We do not chase performance. We look for companies with strong management teams, high barriers to entry, solid balance sheets, and we continue to rigorously examine downside scenarios for our positions. The Fund utilizes a classic value-driven philosophy based on the belief that leading businesses selling at a discount to fair value have the potential to generate excess returns. The Fund's strategy focuses on stocks that are temporarily out of favor in the market, specifically companies with higher returns on capital, free cash flow and strong balance sheets. Emphasis is placed on those companies having the cash flow characteristics as well as the balance sheet strength necessary to buffer the company from any prolonged weakness. While the companies we select often dominate a particular industry niche and generally have significant barriers to entry, we believe they are able to perpetuate a higher return on capital over time. The Fund's overall investment process utilizes fundamental bottom-up security selection, while risk-control measures ensure security and sector diversification.

As of December 31, 2020, BJ's Wholesale Club Holdings Inc. made up 0.51%, MACOM Technology Solutions Holdings Inc. made up 1.26%, Murphy USA Inc. made up 2.22%, Steven Madden Ltd. made up 0.93%, Western Alliance Bancorp made up 1.86%, Pinnacle Financial Partners Inc. made up 2.22%, Sterling Bancorp made up 2.06%, American Campus Communities Inc. made up 0.99%, Cactus Inc. made up 0.01%, Harmonic Inc. made up 0.71%, Energizer Holdings made up 0.60%, Ingredion Inc. made up 1.44%, Darling Ingredients Inc. and Virtusa Corp. made up 0.00% of the Touchstone Small Cap Value Fund. Current and future portfolio holdings are subject to change.

¹ Beta is a measure of the volatility of a fund relative to its benchmark.



Fund Facts (As of 12/31/20)

Class	Inception Date	Symbol	CUSIP	Annual Fund Operating Expense Ratio*	
				Total	Net
A Shares	03/01/11	TVOAX	89155T821	1.59%	1.39%
C Shares	03/01/11	TVOCX	89155T813	4.51%	2.14%
Y Shares	03/01/11	TVOYX	89155T789	1.32%	1.14%
INST Shares	03/01/11	TVOIX	89155T797	1.20%	0.99%
Total Fund Assets	\$66.8 Million				

*Expense ratio is annualized. Data as of the current prospectus. Touchstone Advisors has contractually agreed to waive a portion of its fees and/or reimburse certain Fund expenses in order to limit certain annual fund operating expenses (excluding Acquired Fund Fees and Expenses "AFFE," and other expenses, if any) to 1.38% for Class A Shares, 2.13% for Class C Shares, 1.13% for Class Y Shares and 0.98% for Class INST Shares. These expense limitations will remain in effect until at least 01/29/22.

Share class availability differs by firm.

Annualized Total Returns** (As of 12/31/20)

Class	4Q20	YTD	1 Year	3 Year	5 Year	10 Year	Inception
Excluding Max Sales Charge							
A Shares	30.00%	3.18%	3.18%	2.66%	8.20%	7.01%	8.19%
C Shares	29.78%	2.46%	2.46%	1.91%	7.39%	6.36%	7.47%
Y Shares	30.06%	3.47%	3.47%	2.92%	8.47%	7.29%	8.34%
INST Shares	30.14%	3.71%	3.71%	3.10%	8.65%	7.44%	8.42%
Benchmark [^]	33.36%	4.63%	4.63%	3.72%	9.65%	8.66%	8.05%
Including Max Sales Charge							
A Shares	23.48%	-1.98%	-1.98%	0.66%	6.93%	6.38%	7.85%
C Shares	28.78%	1.46%	1.46%	1.91%	7.39%	6.36%	7.47%

Max 5.00% sales charge for Class A Shares and 1% Contingent Deferred Sales Charge for Class C Shares held less than 1 year.

[^]Benchmark - Russell 2000[®] Value Index¹

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**The performance presented for Class A, C, Y and INST Shares combines the performance of a predecessor class of shares (Z Shares). Class Z Shares inception date was 03/04/02. Class Z Shares were merged into Class A Shares on 06/10/11.

¹The Russell 2000[®] Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

The indexes mentioned are unmanaged statistical composites of stock market or bond market performance. Investing in an index is not possible. Unmanaged index returns do not reflect any fees, expenses or sales charges.

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A Word About Risk

The Fund invests in equities which are subject to market volatility and loss. The Fund invests in stocks of small-cap companies, which may be subject to more erratic market movements than stocks of larger, more established companies. The Fund invests in value stocks which may not appreciate in value as anticipated or may experience a decline in value. The Fund's investments in other investment companies will be subject to substantially the same risks as those associated with the direct ownership of the securities comprising the portfolios of such investment companies, and the value of the Fund's investment will fluctuate in response to the performance of such portfolios. In addition, if the Fund acquires shares of investment companies, shareholders of the Fund will bear their proportionate share of the fees and expenses of the Fund and, indirectly, the fees and expenses of the investment companies. Events affecting the financial markets, such as a health crisis, may at times result in unusually high market volatility, which could negatively impact Fund performance and cause it to experience illiquidity, shareholder redemptions, or other potentially adverse effects. Current and future portfolio holdings are subject to risk. The Advisor engages a sub-advisor to make investment decisions for the Fund's portfolio; it may be unable to identify and retain a sub-advisor who achieves superior investment returns relative to other similar sub-advisors.

Please consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. The prospectus and the summary prospectus contain this and other information about the Fund. To obtain a prospectus or a summary prospectus, contact your financial professional or download and/or request one at TouchstoneInvestments.com/resources or call Touchstone at 800.638.8194. Please read the prospectus and/or summary prospectus carefully before investing.

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